



# AEDC

**Anchorage Economic**  
Development Corporation

## 3-YEAR OUTLOOK REPORT | 2018

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## TABLE OF CONTENTS

|                                 |    |
|---------------------------------|----|
| INTRODUCTION                    | 03 |
| <hr/>                           |    |
| POPULATION                      | 04 |
| <hr/>                           |    |
| EMPLOYMENT                      | 05 |
| <hr/>                           |    |
| PERSONAL INCOME                 | 07 |
| <hr/>                           |    |
| ANCHORAGE INTERNATIONAL AIRPORT | 08 |
| <hr/>                           |    |
| PORT OF ALASKA                  | 10 |
| <hr/>                           |    |
| REAL ESTATE INDICATORS          | 11 |
| <hr/>                           |    |
| VISITOR INDUSTRY                | 14 |
| <hr/>                           |    |
| OIL PRICES                      | 15 |
| <hr/>                           |    |
| LOOKING AHEAD                   | 17 |

# Introduction

**A growing body of evidence indicates the recession is likely near its bottom and the local economy is poised for recovery.**

This year's 3-Year Outlook is consistent with AEDC's message last year, with 2018 marking the point at which we'll start seeing measurable signs of economic turn-around. While the latest available data indicates Anchorage losing jobs in the first half of 2018, the expected trend is that job losses will continue to moderate, reaching a point by early 2019 where Anchorage's economy is no longer in recession.

Each year AEDC offers its perspective on trends in the Anchorage economy. Relying on analysis of a variety of data sources and interviews with key industry representatives, the Outlook considers trends in population, employment, personal income, air passenger and cargo volumes, Port of Alaska volume, building permit values, single-family home prices, new housing units, bed tax, car/RV tax revenue, and oil prices.

As readers consider the specific measures of economic activity described in this Outlook, it is useful to reflect on some of the external and internal forces that affect trends in Anchorage. For example, oil price recovery is easing state revenue shortfalls and spurring interest in oil industry investment. According to the Institute of Social and Economic Research's (ISER) 2018 Construction Spending Forecast, oil industry spending in Alaska will climb 15 percent in 2018.

Anchorage residents will enjoy an uptick in disposable income over the next several years. The anticipated 2018 Permanent Fund Dividend of \$1,600 will pump more money into the economy toward the end of the year, and federal tax reform will free up personal income and spending in 2019 and beyond.

We have made some progress toward state fiscal sustainability. Senate Bill (SB) 26 (the Permanent Fund Protection Act), signed into law by the Governor on June 13, provides for annual percent-of-

market-value draws on Permanent Fund earnings. That alone does not close the budget gap, but SB26 was important enough to secure a ratings hike in Standard and Poor's Global Rating, upgrading the State of Alaska's general obligation debt outlook from negative to stable.

By all accounts 2018 will be a good year for the Anchorage visitor industry. The cruise industry in Alaska is enjoying solid growth and cross-gulf traffic is taking a big jump (+20 percent) in 2018. In 2019, Alaska will host 1.3 million cruise visitors; combined with other tourists, total visitation will likely top 2.2 million.

These positive developments are tempered by lingering effects of recession. Some sectors in the Anchorage economy continue to shed jobs, for example, restaurants and drinking establishments, where employment is down about 5 percent over the past 12 months. Anchorage suffered a net loss of over 5,000 generally high-wage jobs and \$400 million in annual wages between 2015 and 2017, mainly in the oil industry, professional services, construction, and state government. The multiplier effect of that loss in employment and income will take time to fully unfold.

Nevertheless, consumer confidence is returning in Anchorage, as revealed in the 2nd quarter AEDC Anchorage Consumer Optimism Index, which measured 57.2, up nearly 4 points from the previous 1st quarter index. Any measure over 50 reflects a generally positive outlook. As described in this 3-Year Outlook, AEDC has a similar sense of improving optimism, though grounded in the reality of challenges still ahead.

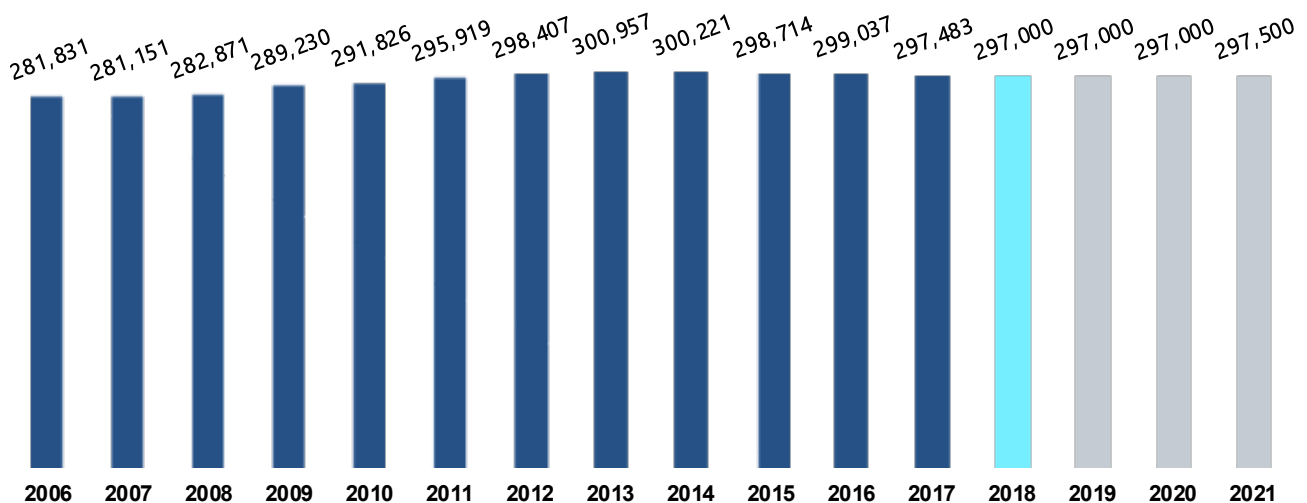


## POPULATION

**Anchorage's population in 2017 was down 1,500 people from 2016, a 0.5 percent dip. Since peaking in 2013, Anchorage has seen a net loss of about 3,500 residents (a decline of about 1.2 percent). With employment continuing to trend down in 2018, AEDC anticipates further decline this year of about 500 residents (-0.2 percent).**

As the local employment picture stabilizes, AEDC expects Anchorage's population to hold steady in 2019 and 2020 before showing a modest increase (+500 residents) in 2021. The latest data indicate Anchorage experienced negative net migration (people entering minus people leaving) for the 7th straight year in 2017. This trend is likely to persist in 2018, but at a lower rate than previously anticipated. A recovering economy should support a return to a balance between in-migration and out-migration, which is in line with the long-term trend.

### ANCHORAGE POPULATION, 2006-2021



Source: Alaska Department of Labor and Workforce Development (2006-2017), McDowell Group estimates (2018-2021).

- Between 2016 and 2017, there were 4,273 births and 1,768 deaths in Anchorage, resulting in a “natural” population increase of 2,505 people. However, 28,244 residents left while 26,736 people arrived in the Municipality, resulting in negative net migration of -1,508.
- A natural increase in population (births minus deaths) will be the primary component of near-term population growth. An average of roughly 2.5 births for every death in Anchorage over the next three years is expected.
- Mat-Su continues to be Anchorage's top intrastate migration partner. In 2017, more than 3,100 Anchorage residents moved to the Mat-Su Borough; at least 1,800 Mat-Su residents moved to Anchorage.
- Though Anchorage accounts for 40 percent of the State's population, it is involved in 70 percent of intrastate migration – total resident moves – according to the Alaska Department of Labor and Workforce Development.
- The growing elderly population is reflected in Anchorage's rising median age, which should reach 36 years by 2025. However, the current median age of just under 35 years is lower than 93 percent of all U.S. counties.
- Between 2012 and 2017, the 65+ year-old cohort grew by 6,649 people (+27 percent). At the same time, the population between ages 25-64 years fell by 2,337 (-1.4 percent) and the 25 year and younger population decreased by 5,163 (-4.8 percent).



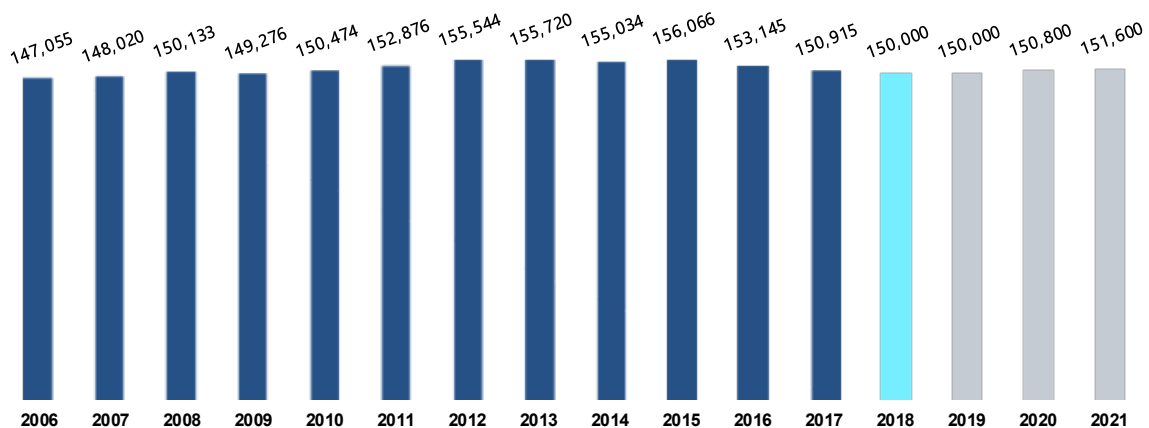


## EMPLOYMENT

Consistent with AEDC's January jobs forecast, Anchorage employment is expected to average about 150,000 positions in 2018, a decline of 0.7 percent (-1,000 jobs) from 2017. Although this will be the third consecutive year of declining employment, it will also be the smallest annual reduction of the period. In every quarter of 2017, losses narrowed from the year prior. AEDC expects this trend to continue into 2018.

Moving into 2019 and beyond, AEDC sees reason for optimism, tempered by yet to be defined market forces such as the price of oil and international trade relations in Asia and Europe. Supported by improving consumer and investor confidence, renewed resource development, visitor industry growth, and an improving state budget situation, no further employment loss is expected for 2019 and annual growth of about 0.5 percent (+800 jobs) is anticipated through 2021.

### ANCHORAGE EMPLOYMENT, 2006-2021



Source: Alaska Department of Labor and Workforce Development (2006-2017), McDowell Group estimates (2018-2021).

- Employment in Anchorage totaled a monthly average of 150,900 jobs in 2017, a 1.5 percent (-2,200 jobs) decline from 2016. Preliminary data through June 2018 indicate employment is down approximately 1.1 percent from the same period in 2017. However, the final numbers for early 2018 are expected to show somewhat less decline.
- Anchorage's oil and gas sector lost 300 jobs in 2017, declining to an average of 2,600 positions. Oil industry employment in Anchorage in 2017 was about 1,300 jobs below the 2015 peak. However, preliminary 2018 data indicate local employment has largely stabilized. The recent increase in oil prices bodes well for additional industry investment and a return to some measure of stability in statewide oil industry employment.
- Construction employment in Anchorage averaged 7,150 jobs in 2017, about 300 fewer than 2016, down 3.6 percent. Losses narrowed toward year-end, with the August-September period seeing growth. Anchorage construction firms conduct work throughout Alaska; strong defense spending and other civil construction projects will support a return to growth in this sector. Preliminary data through June show no change in Anchorage construction employment compared to the same period in 2017.

## EMPLOYMENT, CONT.

- Anchorage healthcare employment expanded 3.8 percent (+750 jobs) in 2017 to an average of 20,700 positions, extending a decade-plus run of year-over-year growth. Most of the growth in this sector is in out-patient health care, where employment has grown 20 percent since 2013 and now accounts for just over 11,000 jobs. Preliminary data shows Anchorage health care employment continues to expand in 2018.
- Professional and business services employment in Anchorage declined 3.6 percent (-650 jobs) in 2017, averaging 17,500 jobs. Following a peak in 2013 at nearly 20,200 positions, this sector — which includes engineers, lawyers, architects, and a variety of other professionals — has struggled over the course of Alaska's recession. However, year-to-date data through June 2018 show losses moderating.
- The Anchorage retail sector has been hit hard in 2018 with the closure of two Sam's Club stores, Sears, and Toys 'R' Us. This sector averaged 17,500 positions in 2017, a 1.8 percent (-300 jobs) decline from 2016. While data through June 2018 show the decline has accelerated, losses in this sector are anticipated to moderate in the near-term, supported by the opening of a Guitar World, opening of a larger REI store, a new Carrs grocery store, and expansion of retail marijuana stores, among others.
- Government employment in Anchorage fell about 1.5 percent (-400 jobs) in 2017 to an average of 27,900 positions. Federal employment was down 1.2 percent (-100 jobs), state government slid 2.5 percent (-250 jobs), and local government (including the Anchorage School District) fell 0.7 percent (-50 jobs). YTD data through June indicates the trend of losses in this sector are continuing.
- Anchorage leisure and hospitality employment averaged 17,200 jobs in 2017, a 1.0 percent (-150 jobs) decline from 2016. About 20 percent of employment in this sector is in accommodations; the remainder are in food service establishments. Preliminary data through June show employment trending lower, mainly in the food services sector.

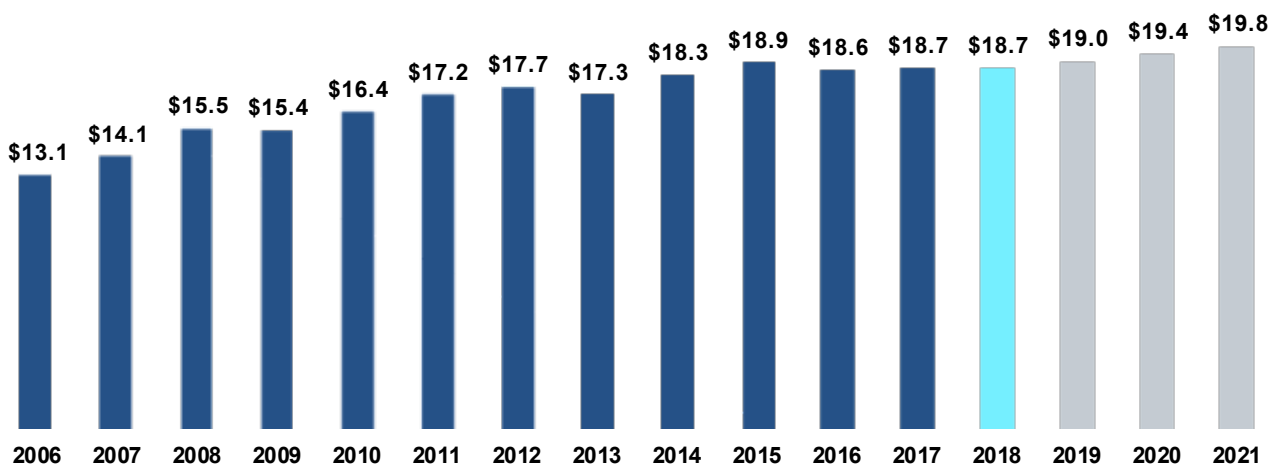


## PERSONAL INCOME

**Between 2016 and 2017, total personal income in Alaska grew by about 0.4 percent. Wage-related earnings fell while investment income and government transfers increased. Although Anchorage-specific data is not yet available, the city likely experienced similar trends to Alaska.**

AEDC anticipates personal income in Anchorage in 2018 to hold at about the 2017 level, with reductions in wage earnings offset by an increase in investment income and government transfers. Moving forward, a slightly larger PFD, changes to the federal tax code, and generally improving economic conditions will support a return to growth. Annual average growth of 2.0 percent is anticipated from 2019 through 2021.

### ANCHORAGE PERSONAL INCOME, 2006-2021 (\$ BILLIONS)



Source: Bureau of Economic Analysis, (2006-2017), McDowell Group estimates (2018-2021).

- In 2016 (the most recent data), Anchorage residents had \$18.6 billion in personal income, a 1.9 percent decrease from 2015. Salaries and benefits (including proprietor income), the largest component, fell 2.5 percent to \$12.5 billion. Investment income (including dividends, interest, and rents) of \$3.4 billion was unchanged, and government transfers (including Social Security, veterans' and unemployment benefits, among others) fell 1.5 percent to \$2.7 billion.
- Between 2006 and 2016, total wages and salaries increased at an annual average of 3.0 percent. Investment income and government transfers averaged annual growth of 4.5 and 7.1 percent, respectively.
- Anchorage residents will receive about \$375 million from the 2018 PFD, valued at \$1,600 per dividend, a 45 percent increase over the 2017 value.
- Changes to the federal income tax code will lead to greater retention of personal income in the short-term. The Joint Committee on Taxation's analysis implies \$90 million of tax savings for Anchorage residents in 2018, and roughly \$200 million annually from 2019 to 2021.





# ANCHORAGE INTERNATIONAL AIRPORT

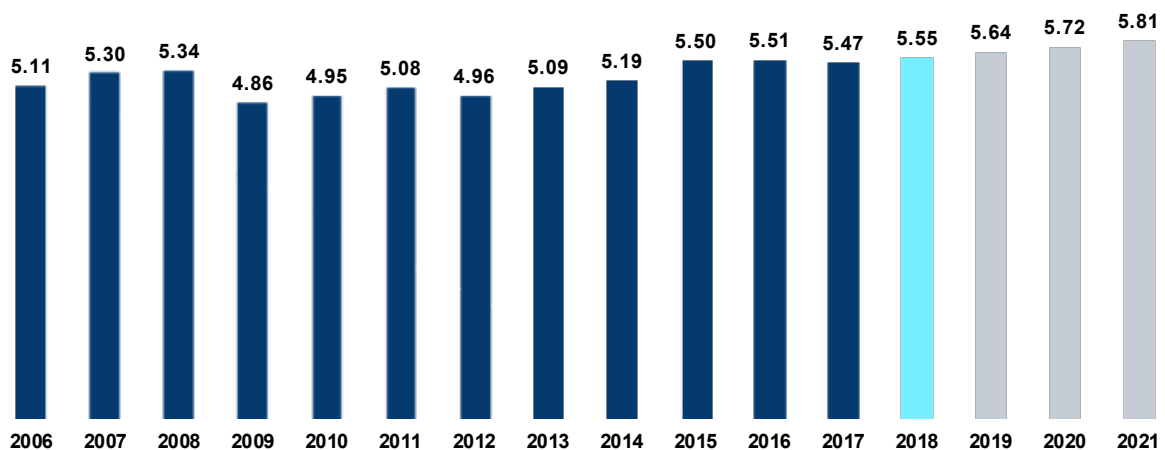
**The Ted Stevens Anchorage International Airport (ANC) serves as essential infrastructure for virtually every sector of the local economy and is an economic engine (accounting for approximately 16,000 local jobs). ANC serves about as many passengers as all other Alaska airports combined.**

Measured by cargo volume, ANC is the 5th busiest airport in the world, and second in the nation (behind Memphis). Located less than 10 hours from most of the industrialized world, the facility is strategically located to serve the global air fleet. ANC's Lake Hood Seaplane Base is the world's largest and busiest floatplane facility.

## AIR PASSENGERS

Supported in part by increasing cruise passenger traffic, 5.55 million passengers are expected through ANC in 2018, a 1.5 percent increase from 2017. A robust visitor industry and some expected strengthening in the Alaska economy has prompted AEDC to increase the 3-year outlook from 1.0 percent annual growth to 1.5 percent through 2021.

### AIR PASSENGER VOLUME, 2006-2021 (MILLIONS)



Source: State of Alaska Department of Transportation (2006-2017), McDowell Group estimates (2018-2021). Figures include enplaned, deplaned and transited passengers.

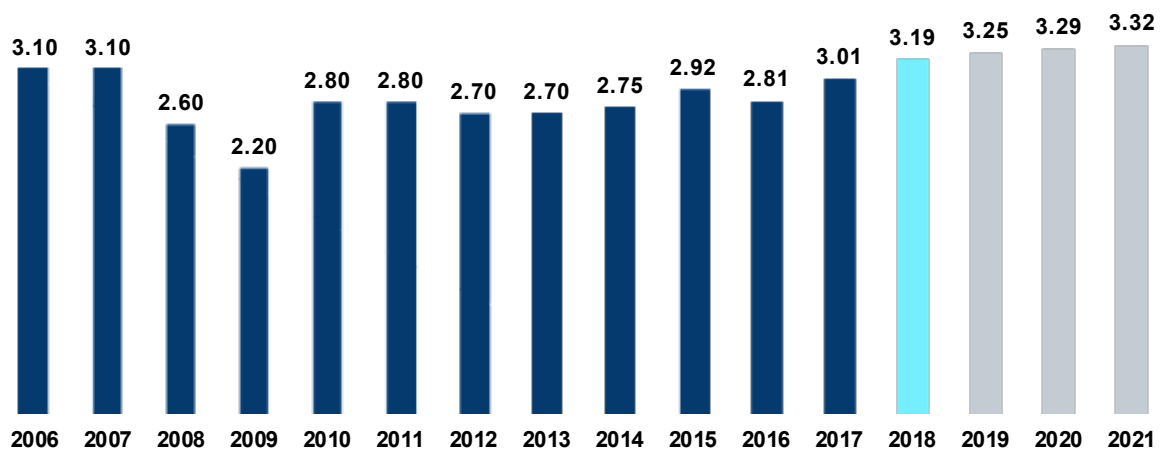
- In 2017, 5.47 million passengers traveled through ANC, a slight (-0.7 percent) decline from 2016. About 2.7 million passengers enplaned and a similar amount deplaned. A small amount (~23,000) of passengers transited through ANC, neither deplaning or enplaning in Anchorage.
- Through April 2018, total passenger volume is up 0.5 percent from the same period in 2017.
- About 70 percent of summer ANC passenger arrivals and departures are travelers from out-of-state, so trends in the visitor industry are an important driver of airport traffic.
- Cruise passengers account for about 5 percent of ANC passenger traffic, on an annual basis. These are passengers who fly one-way and cruise the other, as they arrive and depart from Alaska. Statewide, cruise passenger volume is expected to climb to almost 1.2 million in 2018 and to 1.3 million in 2019 (including round-trip and one-way cruisers).

## AIR FREIGHT

**Cargo volume at ANC is anticipated to total about 3.19 million tons in 2018, a 6.0 percent increase from 2017. This level of activity would eclipse volumes observed prior to the 2008/2009 Recession.**

The escalating “trade war” with China adds a dose of uncertainty to the outlook, but due to strong global economic growth and continued expansion in e-commerce, AEDC expects ANC cargo volume to grow 2.0 percent in 2019, slowing to 1.0 percent growth annually in 2020 and 2021.

### AIR FREIGHT VOLUME, 2006-2021 (MILLION SHORT TONS)



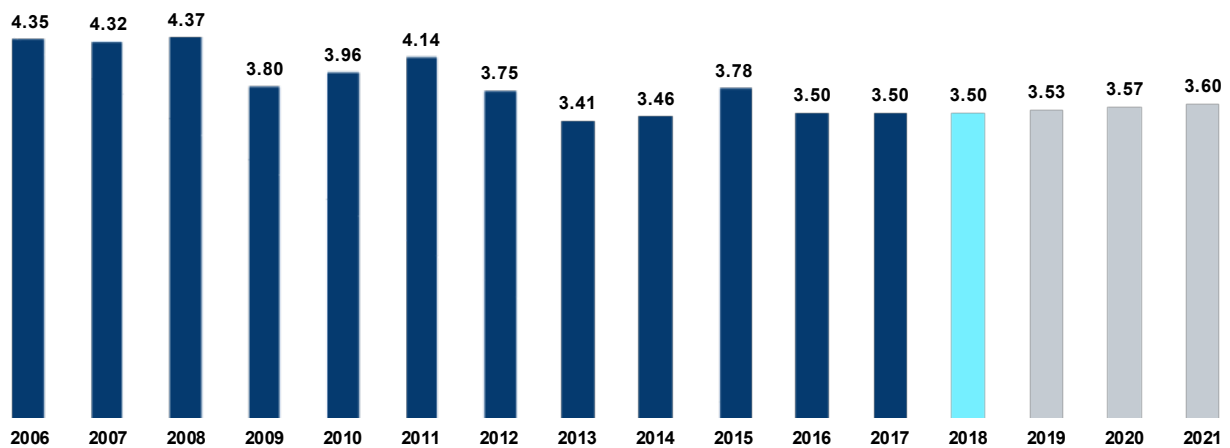
Source: State of Alaska Department of Transportation (2006-2017), McDowell Group estimates (2018-2021).

- ANC handled a total of 3.01 million tons in 2017, a 7.1 percent increase from 2016. Transited air cargo was the largest component, totaling 1.90 million tons, or 63 percent of all cargo. Enplaned cargo totaled 0.57 million tons and deplaned cargo totaled 0.54 million tons.
- Through May 2018, cargo volume totaled 1.04 million tons, a 6.8 percent increase from the same period in 2017. Enplaned and deplaned cargo is up while the transited component is down.
- The two largest carriers of transiting cargo in 2017 included Cathay Pacific Airways (325,000 tons) and China Airlines (250,000 tons).
- United Parcel Service (UPS) and Federal Express (FedEx) account for the majority of enplaned and deplaned airfreight at ANC. UPS landed about 350,000 tons at ANC in 2017, while FedEx landed about 180,000 tons (including some transiting volume). These carriers shipped out slightly lower tonnages of airfreight.
- Global air cargo volume is anticipated to grow at an annual rate of 4.3 percent through 2035, according to the Boeing Air Cargo Forecast.



AEDC anticipates cargo volume at the Port of Alaska (POA) to remain steady in 2018 then return to a slow growth track of about 1.0 percent annually through 2021.

## PORT OF ALASKA VOLUME, 2006-2021 (MILLION SHORT TONS)



Source: Port of Alaska (2006-2017), McDowell Group estimates (2018-2021).

- A total of 3.5 million tons moved through the port in 2017, a volume nearly identical to 2016. Petroleum was the largest component, totaling 1.8 million tons or 51 percent of all volume. Vans, flats, and containers accounted for 1.6 million tons or 45 percent. Dry bulk (primarily cement) and other cargo accounted for the remainder.
- Through April, volume is up slightly from the same period in 2017.
- Challenging economic conditions contributed to declining vans, flats, and container volume in 2015 and 2016 following a six-year high of 1.8 million tons in 2014. Year-to-date 2018 data shows this category is down slightly.
- In 2018, 10 cruise ships, four dry-bulk (cement) freighters, and between 24-26 petroleum tankers will call on POA, a level similar with 2017.
- Rancho Mesa Partners, LLC., has plans to develop a new 300,000-barrel petroleum storage facility located at POA.
- The primary drivers of port volume are demand for petroleum products destined for ANC and military purposes and household spending on consumer goods.
- Most of the existing infrastructure at the POA has been in place since the 1960s and is past its useful life. The first phase of modernization efforts are underway and will continue through 2020, ensuring that the port can continue to play its vital role in the Alaska economy

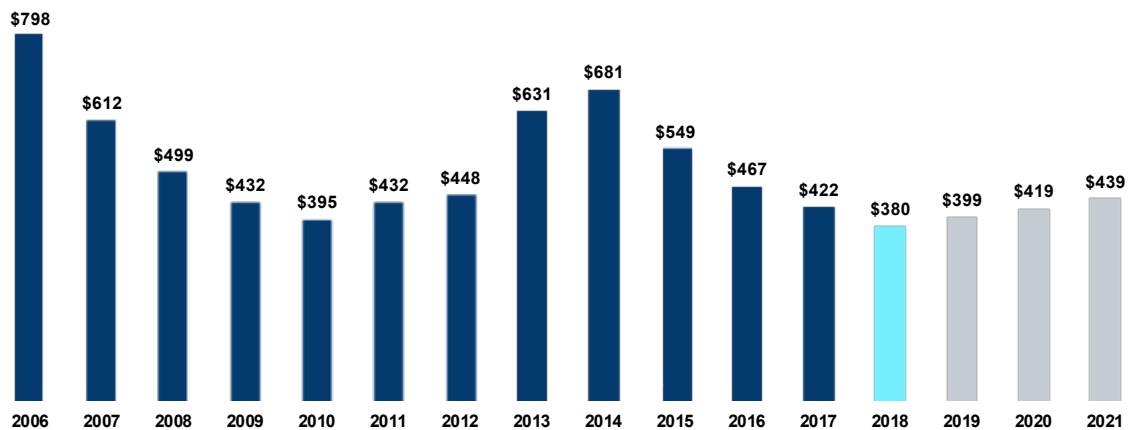




## REAL ESTATE INDICATORS

AEDC expects building permits in Anchorage, for residential, commercial and government construction combined, to total about \$380 million in 2018, a 10 percent decline from 2017. However, AEDC believes that as the community climbs out of recession in 2018, investor confidence will return, investment will resume, and construction will swing back to a growth trajectory.

### BUILDING PERMIT VALUES, 2006-2021 (\$ MILLIONS)



Source: Municipality of Anchorage (2006-2017), McDowell Group estimates (2018-2021).

Though year-to-year variability can be expected, an annual average growth rate of 5.0 percent is anticipated through 2021. It is important to note that building permit values are a proxy for anticipated construction and associated economic activity; not all permitted activity is completed.

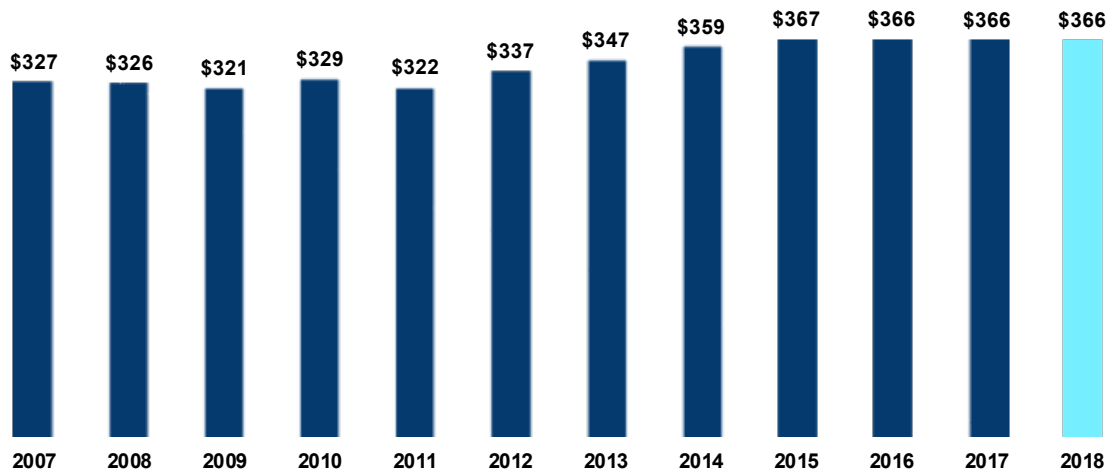
- Building permits in Anchorage totaled \$421.8 million in 2017, a 9.6 percent decline from 2016. Residential permit values increased 5.7 percent from 2016 with a total value of \$139.6 million in 2017. Commercial permit values totaled \$236.2 million, a 14.4 percent decline from the prior year, and the government permit value of \$46.1 million fell 21.9 percent from 2016 to 2017.
- Although Anchorage officials anticipate permitting several large projects in the second half of 2018, permit values are about 20 percent behind last year at this time. Residential permit values are steady compared to 2017; commercial and government permit values are lower.
- Mixed-use projects such as the “Downtown Edge” development and relocation/redevelopment of the Municipality of Anchorage’s Health Department indicate an increasing number of investors and developers have long-term confidence in the Anchorage economy.
- A sample of existing projects currently underway in Anchorage include:
  - Midtown Mall renovations for Guitar World, Carrs, and Recreational Equipment, Inc. (\$13.4 million)
  - Alaska Railroad petroleum and cement terminal (\$6.6 million)
  - Span Alaska dock construction (\$6.0 million)
  - Providence Children’s Hospital (Alaska Cares) building (\$5.9 million)
  - Knik Arm power plant improvements (\$3.7 million)
  - Royal Suites north building (\$3.0 million)
  - Merrill field improvements (\$2.8 million)



## SINGLE FAMILY HOME SALES

Preliminary 2018 data indicates single-family homes values remain stable. Through the first half of the year, sales have averaged about \$367,000, slightly higher from 2017. AEDC anticipates that the stability seen in single-family home sales prices over the past few years will persist through 2018.

### AVERAGE SINGLE-FAMILY HOME SALES, 2007-2018 (\$'000)



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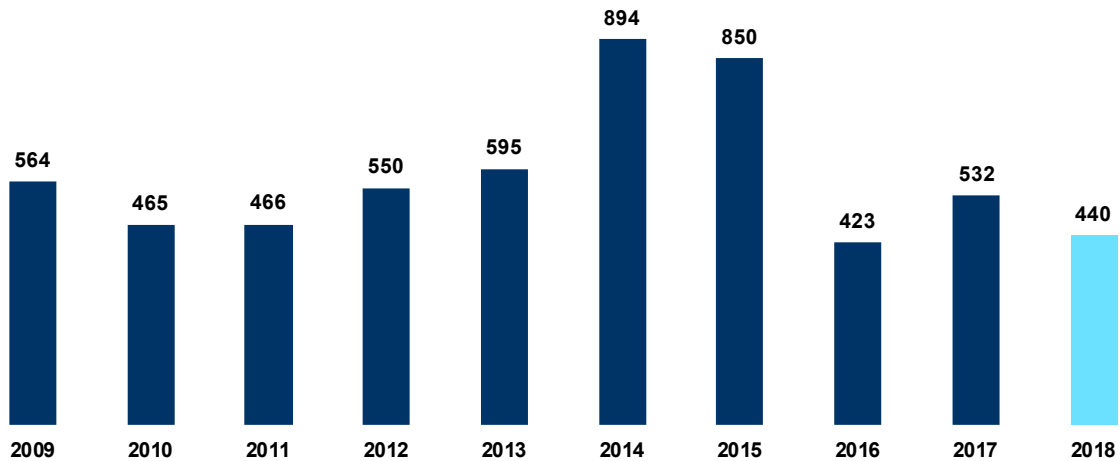
Source: Alaska Multiple Listing Service (2007-2017), McDowell Group estimates (2018).

- The average single-family home price in Anchorage has been virtually the same since 2015 at about \$366,000.
- Sales volume for residential homes in Anchorage is stable. In 2017, about 2,800 single-family homes were sold in the Anchorage market; the 5-year average is 2,900 homes. Sales volume through the first half of 2018 is comparable to prior years.
- Few Anchorage mortgages are in foreclosure. In 2017, 249 homes were foreclosed; the 10-year annual average is 354 homes.
- Although mortgage rates have increased slightly — averaging 4.28 percent in the first quarter of 2018 — rates are still slightly below the ten-year average (4.33 percent).

## NEW HOUSING UNITS

Relying on early 2018 figures, AEDC anticipates some slow-down in housing development this year, with the addition of between 400 and 475 housing units compared to 532 units in 2017.

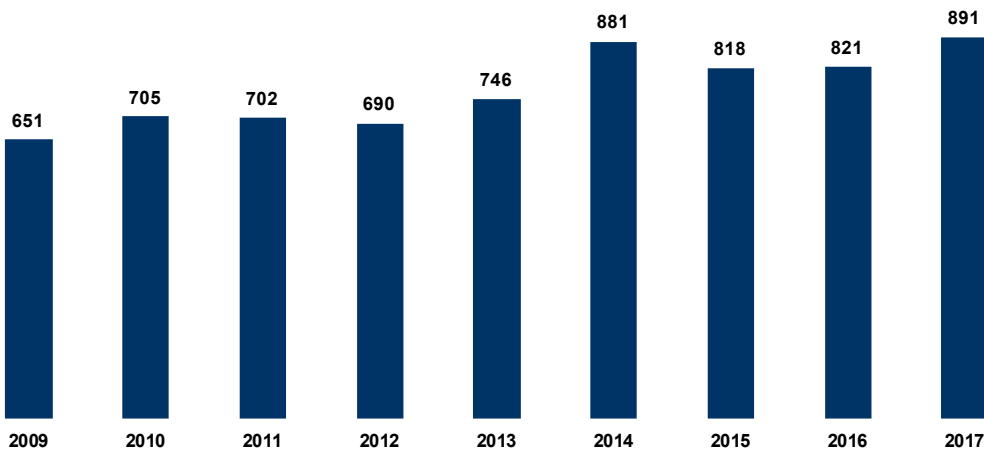
### ANCHORAGE NEW HOUSING UNITS, 2009-2018



Source: Alaska Department of Labor and Workforce Development (2009-2017); McDowell Group Estimate (2018)

- In 2017, multi-family housing was the largest component of growth, totaling 264 units. Single family and mobile homes totaled 196 and 72 units, respectively. The five-year average is about 660 new housing units added annually.
- About 890 housing units were added to the Mat-Su Borough in 2017, a region with about one-third of Anchorage's population.
- Between 2009 and 2017, the Mat-Su Borough added 6,905 units to its housing stock; Anchorage added 5,339 units.

### MAT-SU NEW HOUSING UNITS, 2009-2017



Source: Alaska Department of Labor and Workforce Development (2009-2017)



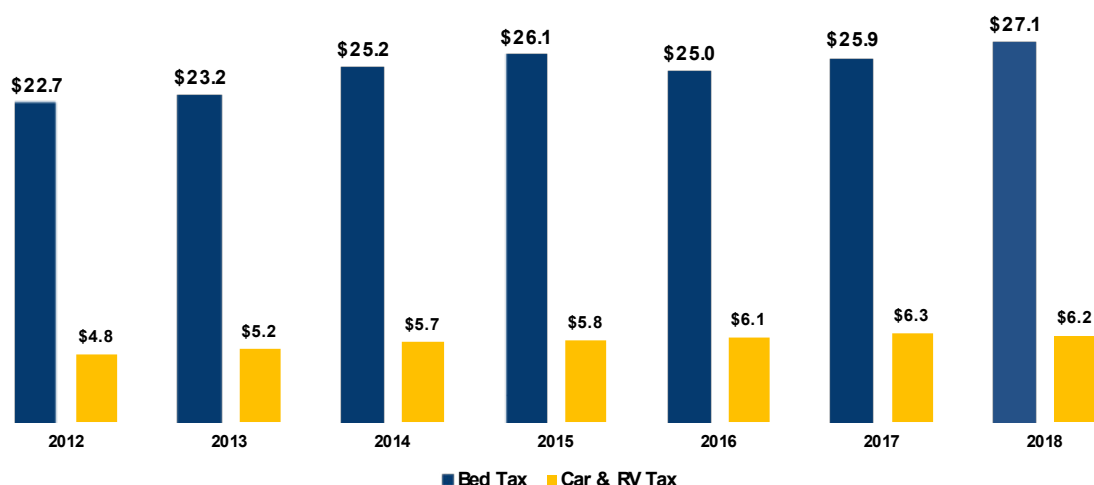


# VISITOR INDUSTRY

**Anchorage's visitor industry is in a period of growth, reflecting the sustained statewide growth in visitor volume over the last several years. While 2017 indicators were a bit mixed for Anchorage specifically, 2018 is likely to show stronger growth, largely due to cruise traffic projections. AEDC expects bed tax revenue to rise modestly in 2018; car and RV tax revenue is anticipated to decline slightly.**

- In 2017, Anchorage bed tax revenue expanded 3.8 percent from 2016, totaling \$25.9 million. Car and RV rental tax increased 3.2 percent over the same period, totaling \$6.3 million.
- Domestic enplanements at ANC during summer 2017 were flat, while international enplanements were down by 0.5 percent. (These figures reflect both resident and non-resident travel).
- While statewide cruise traffic was up by 6.2 percent in 2017, cross-gulf traffic (passengers embarking or disembarking at Whittier or Seward) was down by 0.9 percent. (Virtually all cross-gulf passengers transit Anchorage either before or after their cruise.)
- Preliminary statewide estimates for summer 2017 visitor volume show an increase of roughly 3 to 4 percent over 2016, largely attributable to the cruise market.
- While it is difficult to predict the independent market, Anchorage is almost certain to see growth in visitors in summer 2018, due to a projected increase of roughly 20 percent in cross-gulf cruise traffic. Next year (2019) is expected to see another 5 percent growth.
- Other 2018 indicators are somewhat mixed: bed tax revenues are up 4.3 percent in the first quarter of 2018, while vehicle/RV tax revenues are down by 2.3 percent. Visit Anchorage reports that the 2018 meeting/conference market is not likely to show much growth.
- The statewide tourism marketing program is maintaining funding levels from fiscal year 2018 to 2019, at \$3.2 million each year. While this is slightly up from fiscal year 2017 (+\$1.5 million), it is still far short of previous years, and much lower than comparable states' budget levels. The low level of funding may have an impact on Anchorage visitation over the long-term, particularly independent markets.

## ANCHORAGE BED & CAR/RV RENTAL TAX, 2012-2018 (\$ MILLION)



Source: Municipality of Anchorage (2012-2017), McDowell Group estimates (2018).

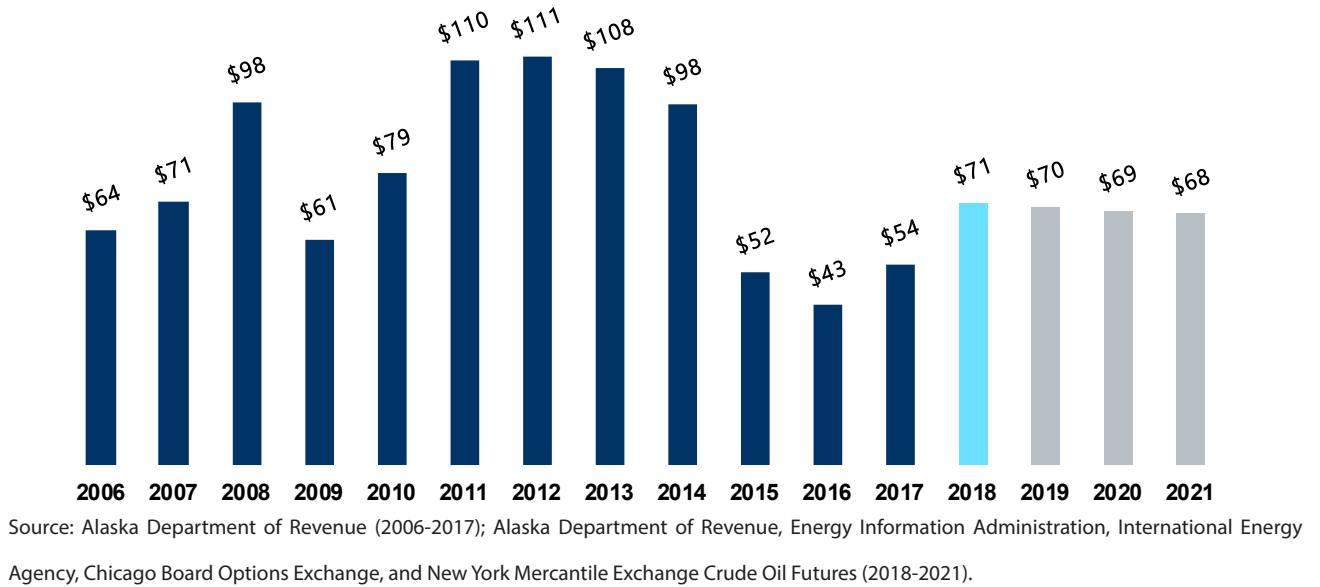
# OIL PRICES

**In May, oil prices rose to \$76 per barrel, the highest level since 2014. Buttressed by strong global economic activity, demand exceeded supply, pushing up prices and encouraging new oil exploration and production projects.**

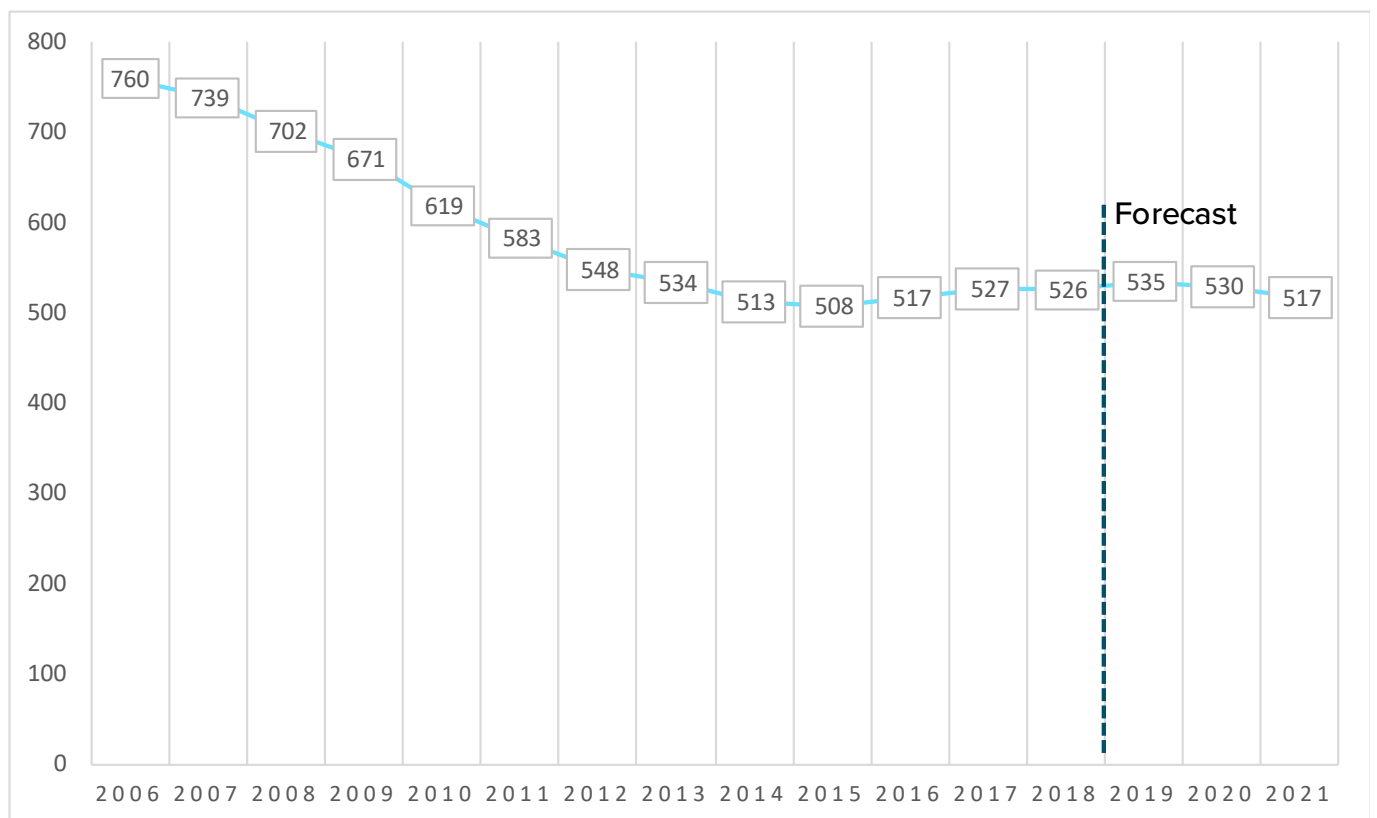
Consistent with public forecasts and other market indicators, AEDC anticipates Alaska North Slope (ANS) prices to average \$71 per barrel in 2018. As recent price volatility has demonstrated, market uncertainty will continue in 2019 and beyond. Prices may taper slightly as markets continue to evolve globally and seek balance in the face of a rapidly changing energy sector.

- The 2017 ANS price averaged \$54 per barrel, a 26 percent increase from 2016. This is the largest annual increase since 2011. Through the first half of 2018, ANS averaged \$70, a 35 percent increase from the same period in 2017.
- Near-term oil price forecasts are mixed. The U.S. Energy Information Administration's July Short-Term Energy Outlook predicts a \$3 per barrel decline from 2018 to 2019. Futures markets also indicate prices could weaken slightly. The Alaska Department of Revenue's ANS price per barrel forecast – presented in mid-March – for 2018 and 2019 is \$62 and \$63.50, respectively.
- The Organization of Petroleum Exporting Countries (OPEC) and its allies recently agreed to add one million barrels per day of oil production to the global market. It is not certain this goal will be realized due to production difficulties in Venezuela and Libya. North Slope production increased for the second year in a row in 2017 – the first consecutive increase since 1988. Through June 2018, production was roughly 3.0 percent below the same period in 2017. A third consecutive year of increased production appears unlikely.
- New discoveries and capital investment by oil companies on the North Slope signal a shift towards optimism for the Alaska energy sector.
  - Oil Search, a Papua New Guinean oil and gas development company, acquired significant interest in the Pikka Unit with the intention of further developing the Nanushuk and Fairway reservoirs. Oil Search has the option to double its ownership in 2019.
  - BP and ConocoPhillips recently completed a cash-neutral asset swap, resulting in ConocoPhillips' acquisition of BP's 39.2 percent interest in the Greater Kuparuk Area.
  - With the addition of six wells in the winter of 2018, ConocoPhillips described its drill season as "promising." These wells may support expanded production in the future.
  - Hilcorp anticipates production from their Moose Pad site in late 2018.

## ALASKA NORTH SLOPE CRUDE OIL PRICE (AVERAGE PRICE PER BARREL), 2006-2021



## ALASKA NORTH SLOPE CRUDE OIL PRODUCTION THROUGHPUT (THOUSANDS OF BARRELS PER DAY), 2006-2021



Source: Alaska Department of Revenue (2006-2017); Alaska Department of Revenue, Alaska Department of Natural Resources (2018-2021).



# LOOKING AHEAD

The last few years have been a challenging period for the Anchorage economy. A 10-year period of significant, largely uninterrupted oil revenue-supported growth pushed employment and total wages to all-time highs in 2015. Since then, employment has retreated to 2010 levels. However, population, total real personal income, and a range of other measures of economic activity remain reasonably close to 2015 levels, reflecting some underlying strength and structural resilience in the economy.

As noted previously, uncertainty remains about the timing and pace of Anchorage's recovery from recession. However, as we look ahead over the next three years, there are plenty of reasons for a positive outlook.

- Military construction will funnel additional federal dollars into Alaska. Construction of F-35 bed-down facilities at Eielson Air Force base, additional radar systems development at Clear Air Force Station, work at the Fort Greely missile field, and other construction projects at Joint Base Elmendorf-Richardson could together account for nearly \$300 million in spending in Alaska over the next few years.
- Increasing personal disposable income should spur retail and service sector spending. Federal tax reform will, over the next three years, allow Anchorage residents to keep half a billion dollars of their income – income that otherwise would have been paid as taxes.
- The visitor industry will continue to be a bright spot in the Alaska economy. Growth in cruise passenger traffic in 2018 and 2019 will pump another \$100 million into the Alaska economy, and push total summer visitor spending to well over \$2 billion.
- Alaska's oil industry has shed about 5,000 jobs over the past four years, one-third of its direct workforce, with a corresponding negative impact on support industry employment. The much leaner industry is now poised for a return to growth. ConocoPhillip's Greater Moose's Tooth-1 project is expected to come on line in late 2018 and produce 30,000 barrels per day at full production. Farther down the road, the Willow prospect has the potential to produce up the 100,000 barrels per day, one-fifth of the total volume of oil flowing through the Trans Alaska Pipeline System today.
- Gas line construction remains a tantalizing prospect for Alaska's economy. Alaska Gasline Development Corporation officials suggest that construction could begin as early as 2020 with first gas moved in 2024-25. If these milestones are achieved, the project could create 12,000 construction jobs, 1,000 ongoing operations jobs, and \$1.4 billion in new state revenue annually.
- Strength in residential real estate has been a blessing in an otherwise difficult economic environment. Real estate value is typically where the damage is most widespread in recessionary periods. Anchorage has been spared that fate. On the other hand, this persistent strength in residential real estate values also reminds us there is a supply challenge that may be acting as a constraint on growth.

While there are a few reasons for concern (trade tariffs and their effects on Alaska's seafood industry and on ANC airport business, for example), overall, there is good reason for improving optimism about the economy, for Anchorage and for Alaska. AEDC remains committed, through this 3-year forecast and its many other initiatives, to providing its members, other investors, and the community with a solid foundation of information about our city's economic well-being.

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